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OPEN MEETING ITEM



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: APRIL 16, 2013

DOCKET NO.: T-02727A-12-0484

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Opinion and Order on:

COPPER VALLEY TELEPHONE, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

APRIL 25, 2013

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

MAY 1, 2013 AND MAY 2, 2013

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

APR 16 2013



Jodi A. Jerich
JODI JERICH
EXECUTIVE DIRECTOR

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF
COPPER VALLEY TELEPHONE, INC. FOR A
HEARING TO DETERMINE THE EARNINGS OF
THE COMPANY, THE FAIR VALUE OF THE
COMPANY FOR RATEMAKING PURPOSES,
AND TO INCREASE RESIDENTIAL RATES AS
NECESSARY TO COMPENSATE FOR THE RATE
IMPACTS OF THE FCC'S USF/ICC
TRANSFORMATION ORDER.

DOCKET NO. T-02727A-12-0484

DECISION NO. _____

OPINION AND ORDER

DATE OF HEARING: March 26, 2013
PLACE OF HEARING: Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE: Teena Jibilian
APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on
behalf of Applicant; and
Mr. Charles O. Hains and Mr. Brian E. Smith, Staff
Attorneys, Legal Division, on behalf of the Utilities
Division of the Arizona Corporation Commission

BY THE COMMISSION:

On November 23, 2012, Copper Valley Telephone Company, Inc. ("Copper Valley" or
"Company") filed with the Arizona Corporation Commission ("Commission") the above-captioned
application. The application states that it was filed pursuant to A.R.S. § 40-250 and Arizona
Administrative Code R14-2-103, to compensate for the rate impacts of the Federal Communication
Commission's ("FCC's") November 18, 2011 Universal Service Fund/Inter-carrier Compensation
("USF/ICC") Transformation Order ("USF/ICC Transformation Order").¹

* * * * *

Having considered the entire record herein and being fully advised in the premises, the

¹ FCC 11-161, *Connect America Fund, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (November 18, 2011); *pets. for review pending* (10th Cir. filed Dec. 8, 2011).

1 Commission finds, concludes, and orders that:

2 **FINDINGS OF FACT**

3 **Procedural History**

4 1. On December 4, 2012, Copper Valley filed the rate application with the Commission.

5 2. On January 22, 2013, Copper Valley filed a Motion for Procedural Order.

6 3. On January 28, 2013, a Rate Case Procedural Order was issued, setting the matter for
7 hearing and establishing associated procedural deadlines, including the mailing of notice of the
8 application and hearing to all of Copper Valley's customers.

9 4. On February 22, 2013, Copper Valley filed an Affidavit indicating that notice as
10 ordered by the Rate Case Procedural Order was mailed to each customer of Copper Valley.

11 5. No requests for intervention were filed.

12 6. On March 14, 2013, Staff filed its Staff Report recommending approval of the
13 application, for an increase from \$12.40 to \$14.00 in the monthly residence local exchange rate to
14 address the impact of the FCC's USF/ICC Order.

15 7. On March 21, 2013, Staff filed the Testimony Summary of its witness.

16 8. No public comment was filed in opposition to the rate increase.

17 9. On March 26, 2013, a hearing on the application was convened before a duly
18 authorized Administrative Law Judge of the Commission. Copper Valley and Staff appeared through
19 counsel, presented testimony and evidence through witnesses, and were provided an opportunity to
20 cross examine witnesses. No members of the public appeared to provide public comment.

21 10. Following the parties' submission of evidence, the matter was taken under advisement
22 pending the submission of a Recommended Opinion and Order.

23 **Copper Valley**

24 11. Copper Valley is an Arizona public service corporation engaged in the business of
25 providing telephone utility service to the public in portions of Cochise and Greenlee Counties in
26 Arizona. The Company serves customers in its Clifton, Duncan, Elfrida, and York Valley
27 Exchanges. In its April 15, 2012, Utilities Annual Report, Copper Valley reported 2,168 residential
28 lines and 685 business lines.

12. Copper Valley is currently charging rates set by Commission Decision No. 58763 (September 1, 1994).

13. Copper Valley is a rate of return incumbent local exchange carrier ("ILEC") eligible to receive federal high-cost loop support ("FHCLS").

FCC USF/ICC Order

14. On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order provides for a transition from former federal universal service programs and most intercarrier compensation systems into a new Connect America Fund ("CAF"). In its USF/ICC Order, the FCC states that by July 1, 2020, intercarrier compensation rates for rate of return companies will be reduced to zero. The recovery from the CAF will phase out over time at 5 percent annually.

15. The USF/ICC Order adds new rules that will reduce FHCLS to carriers by the amount their flat-rate residential local service rates fall below a specified local service rate floor. The rate floor includes state subscriber line charges, state universal service fees, and mandatory extended area service charges, if any are assessed. The USF/ICC Order establishes those rate floors at \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau.

16. As a recipient of FHCLS, Copper Valley is affected by the FCC USF/ICC Order. Under the USF/ICC Order, to continue receiving FHCLS, rural ILECs such as Copper Valley must increase their residential local rates to the FCC-mandated residential rate floors. Otherwise, the amount of FHCLS funds received will be reduced dollar-for-dollar for each customer by the difference between the existing local rate and the new rate floor.

Application

17. The application requests that Copper Valley be authorized to raise its residential local rates from \$12.40 to the \$14.00 rate floor mandated by the USF/ICC Order to allow it to continue receiving FHCLS.

18. Copper Valley submitted the application, after consulting with Staff, in a "streamlined" form. The application and accompanying exhibits in support of Copper Valley's requested increase in residential rates are based on the twelve months ending December 31, 2011.

1 19. For the twelve months ending December 31, 2011, Copper Valley's filing indicates
2 total Intrastate Operating Revenues of \$3,123,913 (which includes FHCLS and Federal Safety Net
3 Additive Support of \$1,817,050), and total Intrastate Operating Expenses of \$2,867,932, for total
4 Intrastate Operating Income of \$255,981 before taxes, and \$75,202 after taxes.

5 20. The filing indicates a total Arizona rate base of \$13,324,258, of which \$4,421,938 is
6 interstate, and \$8,902,319 is intrastate.

7 **Staff Recommendations**

8 21. Staff states that it reviewed the application and the federal rule changes that prompted
9 its filing. Staff states that it concluded that the costs appear reasonable and appropriate under the
10 unique circumstances of this case, but that its recommendation should not be viewed as precedent for
11 the processing of future rate case applications.

12 22. Staff states that for the purposes of this proceeding, Copper Valley stipulated to the
13 use of original cost less depreciation ("OCRB") as the basis for a determination of its fair value rate
14 base ("FVRB").

15 23. Staff reviewed and analyzed the filing, but did not perform a regulatory audit. Staff
16 does not recommend that Copper Valley's rates be set based on a revenue requirement analysis.

17 24. Staff states that the annual revenue effect of Copper Valley's requested increase in
18 local telephone service rates to \$14.00 would be \$42,234. Staff states that compared to Copper
19 Valley's total revenues, any revenue impact from this rate increase would be small, and any impact
20 on Copper Valley's fair value rate of return would be de minimus.

21 25. Staff recommends that Copper Valley's monthly residence local exchange rate be
22 increased to \$14.00 to address the impact of the USF/ICC Transformation Order. Staff states that it
23 believes the requested increase is just, fair, and reasonable for the following reasons:

- 24 (a) The increase is necessitated by the FCC's November 18, 2011 USF/ICC
25 Transformation Order;
- 26 (b) The increase is necessary to preserve the entirety of the federal USF funds that
27 may flow to Copper Valley pursuant to the FCC's rules;
- 28 (c) The increase will minimize/reduce the amount of future rate increase; and

(d) The increase will allow Copper Valley to receive matching funds from the FUSF.

26. The Staff Report states that on December 12, 2012, the Records Section of the Corporations Division responded that Copper Valley is in Good Standing, and a review of Consumer Services database revealed that no complaints, inquiries and opinions were received pertaining to Copper Valley for the period January 1, 2009 – December 12, 2012.

27. Staff states that a check of the Utilities Division Compliance Section database showed that Copper Valley is in compliance with all items.

Conclusions

1. Under the particular circumstances of this proceeding, a rate of return analysis is not useful.

2. According to the evidence presented, the rate increase request will have a de minimus impact on Copper Valley's return on FVRB.

3. Staff's recommendations are reasonable and should be adopted.

4. Under the particular circumstances of this proceeding, Copper Valley's rates for residential local service should increase from the currently tariffed rate of \$12.40 to \$14.00, and all other currently tariffed rates should remain unchanged, in order to assure continued FUSF support for Copper Valley's services.

CONCLUSIONS OF LAW

1. Copper Valley is a public service corporation within the meaning of Article 15 of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over the Company and over the subject matter of this proceeding.

3. The Company provided notice of this proceeding in accordance with law.

4. The Company's Arizona Intrastate FVRB as of December 31, 2011, is \$8,902,319.

5. Under the particular circumstances of this proceeding, a rate of return analysis is not useful.

6. Under the particular circumstances of this proceeding, it is appropriate to increase Copper Valley's rates for residential local service from the currently tariffed rate of \$12.40 to \$14.00,

1 and to leave all other currently tariffed rates unchanged, in order to assure continued FUSF support
2 for Copper Valley's services.

3 7. The rates and charges authorized herein are just and reasonable and promote the public
4 interest.

5 8. The Company should be directed to file revised tariffs showing the rates authorized
6 herein.

7 **ORDER**

8 IT IS THEREFORE ORDERED that Copper Valley Company shall increase its rates and
9 charges in accordance with the Findings of Fact herein.

10 IT IS FURTHER ORDERED that such new rates and charges shall be effective for Copper
11 Valley Company's billings on or after June 1, 2013.

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1 IT IS FURTHER ORDERED that Copper Valley Company is authorized and directed to file,
2 on or before May 31, 2013, revised schedules of rates and charges consistent with the Findings of
3 Fact and Conclusions of Law contained herein.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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7
8 CHAIRMAN _____ COMMISSIONER _____

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

11
12 IN WITNESS WHEREOF, I, JODI JERICH, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
Commission to be affixed at the Capitol, in the City of Phoenix,
this _____ day of _____ 2013.

15
16 JODI JERICH _____
17 EXECUTIVE DIRECTOR

18 DISSENT _____

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20 DISSENT _____

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1 SERVICE LIST FOR: COPPER VALLEY TELEPHONE, INC.

2 DOCKET NO.: T-02727A-12-0484

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